

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1033-01
Bill No.: HB 389
Subject: Taxation and Revenue - General; Revenue, Department of
Type: Original
Date: March 10, 2015

Bill Summary: This proposal would require the Department of Revenue to implement a system enabling certain businesses to pay recurring taxes or fees in one transaction per month.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|------------------------------------|------------------------------------|------------------------------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| General Revenue | (Less than \$4,406,885) | (Less than \$4,240,333) | (Less than \$4,286,484) |
| Total Estimated Net Effect on General Revenue | (Less than \$4,406,885) | (Less than \$4,240,333) | (Less than \$4,286,484) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| General Revenue | 101 FTE | 101 FTE | 101 FTE |
| | | | |
| Total Estimated Net Effect on FTE | 101 FTE | 101 FTE | 101 FTE |

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|-------------------------------------|------------|------------|------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** noted this proposal would require DOR to implement a system that allows qualifying businesses to pay one transaction per month to the Department. A business which pays any tax, fee, charge, or assessment in excess of \$50,000 to 25 or more local assessing entities would qualify to pay one transaction per month to DOR, and DOR would be required to pay the assessing entity the amount remitted within 15 days after the receipt of the funds from the qualifying business. The proposal would allow the Department to collect a fee from the qualifying business of up to one percent of the amount remitted by the business.

DOR officials assume the provisions of this legislation would require a substantial increase in personnel, equipment, and recurring expenses to implement and maintain the program.

Administrative impact

DOR officials assume their organization would develop a new section within the Division of Taxation to implement this legislation, and that section would include one Revenue Band Manager 2 (Range 32, Step P) to manage the section, three (3) Revenue Band Managers 1 (Range 28, Step O) to oversee the operations of the section, six Section Supervisors (Range 22, Step N) to manage unit leaders, twelve Revenue Processing Technicians III (Range 16, Step M) to act as Unit Leaders providing supervision for the Revenue Processing Technicians, and seventy-nine (79) Revenue Processing Technicians I (Range 10, Step L) to conduct the daily operations of the section.

DOR officials assume there would be substantial one-time costs to set up the program.

1. Office construction for band managers,
2. Cubicle construction for all other personnel,
3. Purchase of chair, phones, calculators, computers, etc,

ASSUMPTION (continued)

DOR officials also provided an estimate of potential recurring expense and equipment items.

1. Standard office supplies for daily operations,
2. Telephone charges, and
3. Leased office space

DOR officials stated there is insufficient space in the Harry S Truman State Office Building allocated to the Department; therefore, the Department would be required to lease space in the Jefferson City area at a rate of \$17 per square foot. Based on 2007 Statewide Space Standards, the Department would require approximately 7,264 square feet to accommodate the DOR's estimate of full-time equivalent personnel to implement the program.

The DOR estimate of cost to implement this proposal included 101 additional employees and the total including salaries, benefits, and equipment and expense totaled \$4,581,840 for FY 2016, \$4,857,259 for FY 2017, and \$4,910,457 for FY 2018.

Oversight has no independent information as to the number of businesses which would be enrolled in the program or the number or amount of transactions that would be processed in the system that DOR would be required to create. Oversight is not aware of any similar governmental programs or businesses which provide this type of service, and will indicate a cost up to the DOR cost estimate (as adjusted) in this fiscal note.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines.

Oversight will also include an unknown amount of additional revenue for the one percent retention for DOR collection costs.

Oversight is aware this proposal could reduce payment processing and collections costs for state agencies and/or local governments but has no information as to any potential savings and will not include an estimate of savings in this fiscal note.

ASSUMPTION (continued)

Oversight will assume this proposal would be implemented to allow businesses to consolidate multiple recurring payments by businesses to state agencies and local governments, and the Department of Revenue would not allow current weekly sales tax filers and quarter-monthly withholding tax filers to include those taxes in their consolidated monthly payments under this proposal. If this proposal is interpreted differently, it could lead to cash flow changes for the state and reduced interest income.

IT impact

DOR officials also provided an estimate of the IT cost to implement this proposal of \$300,429 based on 4,006 hours of programming at the current state contract rate of \$75.

Oversight will include the DOR estimate of IT cost in this fiscal note.

Officials from the **Office of Administration-Division of Budget and Planning (BAP)** noted this proposal would require the Department of Revenue (DOR) to administer reoccurring taxes, fees, charges or assessments for requesting businesses. DOR would be allowed to charge a fee up to 1% of the amount remitted. BAP officials stated the fees would have no impact on Total State Revenues as the fee would be a cost reimbursement; however, the 1% fee would impact the calculation required under Section 18(e) of the state constitution by the amount charged.

BAP officials assume the amount is unknown as it would be dependent on how many businesses elect to have DOR administer their reoccurring payments and the amount of those payments. BAP officials deferred to DOR for additional information on the impact and on any administrative costs.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be greater than our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

| <u>FISCAL IMPACT - State Government</u> | FY 2016 (10 Mo.) | FY 2017 | FY 2018 |
|---|---|---|---|
| GENERAL REVENUE FUND | | | |
| <u>Additional revenue - DOR</u> | | | |
| Collection reimbursements | Unknown | Unknown | Unknown |
| <u>Cost - DOR</u> | | | |
| Salaries | (Up to \$2,202,230) | (Up to \$2,642,676) | (Up to \$2,669,103) |
| Benefits | (Up to \$1,123,247) | (Up to \$1,347,897) | (Up to \$1,361,376) |
| Equipment and expense | (Up to \$780,979) | (Up to \$249,760) | (Up to \$256,005) |
| IT cost | <u>(\$300,429)</u> | <u>\$0</u> | <u>\$0</u> |
| Total cost | (Up to \$4,406,885) | (Up to \$4,240,333) | (Up to \$4,286,484) |
| FTE change for DOR | 101 FTE | 101 FTE | 101 FTE |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>(Less than \$4,406,885)</u> | <u>(Less than \$4,240,333)</u> | <u>(Less than \$4,286,484)</u> |
| Estimated Net FTE Effect on General Revenue Fund | 101 FTE | 101 FTE | 101 FTE |
| <u>FISCAL IMPACT - Local Government</u> | FY 2016 (10 Mo.) | FY 2017 | FY 2018 |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

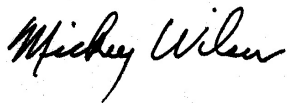
FISCAL DESCRIPTION

The proposed legislation would require the Department of Revenue to create a system to allow a business to remit one payment per month to the department for a tax, fee, charge, or assessment if the total amount is more than \$50,000 and is owed to at least 25 assessing entities. The department would be required to pay the assessing entities no later than 15 days after receipt of the payment and could collect an administrative charge from the business up to 1% of the amount remitted.

This legislation is not federally mandated, would not duplicate any other program. It would, however, require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
Division of Budget and Planning
Department of Revenue



Mickey Wilson, CPA
Director
March 10, 2015

Ross Strobe
Assistant Director
March 10, 2015